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Contributors

Dr Segun Odukomaiya
Associate Professor, Department of Mass Communication, University of Lagos, Lagos.

Dr S. C. Chiemeke
Department of Computer Science, University of Benin, Benin City.

Osubor, V.
Department of Computer Science, University of Benin, Benin City.

Ukaoha, K. C
Department of Computer Science, University of Benin, Benin City.

Dr Sam. Kolo Tswanya
Department of General Studies, Federal University of Technology, Minna.

Chris Ebighgbo
Department of Fine/ Applied Arts, University of Benin, Benin City.

Mark C. Eti
Mechanical Engineering Department, Rivers State University of Science and Technology, Port-Harcourt.

Harold U. Nwosu
Mechanical Engineering Department, University of Port-Harcourt, Port-Harcourt.

Dr Ogbeide O. Victor
Department of English, University of Ado-Etiti, Ado Etiti.

Dr Olufemi Onabajo
Department of Mass Communication, University of Lagos, Lagos.

Dr Mbuk Mboho
Department of Communication Arts, University of Uyo, Uyo.

O. S. Ibidunni
Department of Marketing, Covenant University, Ota.

Egbe Ojong Tandu
Head, Political Science Unit, Cross River University of Technology, Akamkpa Campus.

Augustine O. Okolie
Department of Accounting, Ambrose Alli University, Ekpoma.

Bamgbose, J. Adele
Political Science Department, Lagos State University, Ojo.

Asari Effanga Young (Mrs)
Faculty of Law, University of Calabar, Calabar.

Ohiaegbunem, Emmanuel Ifeanyi
Department of Urban and Regional Planning, Auchi Polytechnic, Auchi

Taofeek Ajibola Lawal
Department of Business Studies, The Polytechnic Ibadan, Adeseun Ogundayin Campus, Eruwa.

Ojo, O.O (Mrs)
Rufus Giwa Polytechnic, Owo.

Godwin Ighodalo
Department of Estate Management, Auchi Polytechnic, Auchi.

Matthew B. W Gimba
School of Business Education, Federal College of Education (Tech), Omoku.

Mbia, Stephen Mbia
Department of Curriculum and Instructional Technology, Cross River University of Technology, Akamkpa Campus.

Daniel Nosakhare Onaiwu
Department of Urban and Regional Planning, Auchi Polytechnic, Auchi.

F. A. Ilevbaoje
Social Studies Department, College of Education, Ekiadolor.

Turu Christopher Musa
Department of History, FCT College of Education, Zuba.

Dr Regina U. Obi
Department of Sociology and Anthropology, University of Benin, Benin City.

Contents

VISION AND MISSION OF PRIVATIZATION IN THE 21ST CENTURY

O.S. Ibidunni

Abstract

Privatization can be defined as the process whereby the ownership of public sector enterprises is transferred to private investors. Prior to 188, Nigeria witnessed the practice of regulated economies. Companies operated with the business objectives of providing goods and services at reasonable prices and at reasonable profits to the company. Empowered by the privatization and commercialization act of 1988, the Federal government in all had 89 enterprises privatized between 1988 and 1993 in her first phase of the three phased privatization programme. The enterprises include all government concerns including banks, insurance companies, hotels, flour mills etc. The essence was to give beter and more efficient structure to the Nigerian economy while the numerous benefits will accrue to the teaming population. Therefore this paper will discuss the genesis, types, and modalities of privatization. It will also appraise the achievements so far and what vision and mission it should possess in the 21st century.

Introduction

One feature of public enterprises all over the world, but more particularly in developing countries is inefficiency, beaucracy and uncare attitudes of most public servants; leading to waste, slow growth and inordinate dependence on government support even when the activity is apparently a profitable line (Anyanwu, 1993). As a way of improving performances of these public enterprises, not only commercialization of these enterprises through which profit orientation will be the motive of these enterprises, also complete privatization such that the government diverts itself of its ownership interest and allow private sector to buy over these companies.

This paper will therefore, be addressing the following issues in relation to the topic above.

i) Meaning, types, the genesis of the privatisation policy in Nigeria.
ii) Arguments for privatization in Nigeria.
iii) Modalities for privatisation policy in Nigeria.
iv) Appraisal of privatization policy so far.
v) How privatization should be adopted in the 21st century.

1) Meaning, Types and Genesis of Privatization in Nigeria

Afolabi (1991), gave the meaning of privatization as involving the public sector reduction in economic activity-divestiture of government economic activities. Two types of privatization are identified; the first is full privatization which means disinvestments by the federal government of all its ordinary shareholding in a designated enterprise. Enterprises affected are those which produce goods which are more private (consumptive) than 'public' (essential) in nature. The second one is partial privatization, which means disinvestments by the federal government of part of its ordinary shareholding in a designated enterprise. The enterprises involved are ones which the government considers strategic because of their essential nature of goods and services to members of he public. However, the government still exercises influence over them to the extent of its representation on the Board of Directors.

Genesis of Privatization

At the dawn of political independence in the third world countries, it became evident that citizens of these countries including Nigeria were economically backward.The spirit of entrepreneurship was not there. In the case of Nigeria, up to 1988, the Federal Government has substantial investment in more than 100 enterprises involved in industrial activities. According to Umunnahila (2001) he claimed that these enterprises had annual returns of less than N500 million or 2.0 percent on total federal government investment which was N15 billion on loans and N8 billion in equity capitals.

Also the first categorical official statement of intent on privatization was made in January 1986, during the year Budget speech by the military President I. B Babangida. He claimed that there were about 500 companies and parastatals in which the federal government had invested over N36 billion as equity loans and subventions, but from which she had been realizing less than N500 million annually. These enterprises also incurred huge debts which were being repaid and serviced by government. Moreover, as much as 40% of the government capital investment budget went to support public enterprises, the provision of whose goods and service were often costly, inefficient as explained earlier and subject to political manipulation.

Agada (2002), reported on hotels that government by August 2002, when she divested from both Nicon and Sheraton, it made a combined loss of N37.750 billion on the two hotels. This was because it inherited debt of $250 million from Nicon and $145 million from Sheraton. It should be noted that much of the debt arouse from inflated contracts.

As can be seen above, these returns on government investment were very meager and one can them, visualize the problems these enterprises posed and are still posing to the economy of Nigeria.

2) **Arguments for Privatization in Nigeria**

a) With the enterprises in the hands of private investors, it is argued that there will be economic efficiency.

b) Equity is very crucial in the provision of goods and services. Private income and wealth are always being considered by the operators, hence all strata of the population are in consideration.

c) Organisation and management, through incentives, communication, consultation, collective bargaining and creativity make privatization result in better rewarding system.

d) It helps to reduce government regulation of the economy making room for greater deregulation and operation of market forces.

e) It encourages competition as private initiatives in the privatized industries increase. Money and Business (2004), on Italian TV, privatization, it was reported that the government said that the expected emergence of many new channels is a guarantee of competition in itself.

f) It reduces the burden on the dwindling resources of the government.

g) It will help restructure the Nigerian economy to relocate public fund to efficient users, create a self sustaining culture, attract foreign investors, while goods and services will reflect real values.

h) Overtime the economy will shift from consumption oriented to production oriented one. This helps in the motivations of the work force and instilling of work ethics and greater discipline.

Modalities for Privatization Policy in Nigeria

The law governing privatization in Nigeria was promulgated on July 5th 1988, as an Act; and it was known as "Privatization and Commercialisation Act of 1988". This act regulated the first phase of privatization between 1988 and 1995. The Bureau of Public Enterprises formerly TCPC serves as the secretariat whereby the National Council on Privatization the basic institution, operates.

This council decides which enterprise(s) should be privatized within the three phrase that have been planned out. According to Adetunji and Adegboro (2000), interviewing El Rufai the then Direct-General of Bureau of public enterprises, he claimed that the second phase would have included vehicle assembly plants, hotels, sugar plantations, paper mills and other manufacturing concerns. As at 2002, government has sold off some hotels and Nigerian Airways.

Appraisal of Privatisation Policy So Far

According to Investor (2004), assessment of performance so far is as follows:
By the year-end 1993, divestment had been concluded in 34 companies through the stock market. Out of this number, 28 were first timers on the stock exchange after privatization, two of the 34 companies, United Nigeria Insurance Company Plc and United Nigeria Life Insurance Company Plc (UNLIC) were involved in a merger. Federal Ministry of Defence also divested part of its holdings in Union Dicon Salt Plc.

The following variables will be used in measuring part privatization performance viz: turnover, profitability, dividend per share, dividend pay out, the rate of debt to equity, investment turnover and earnings per share and stock market performance of the enterprises.

It was claimed for some privatized companies that though output level dropped due to declines in consumer demand and high cost of inputs, turnover rose. It was also reported that overhead cost increased while the non-financial sector reported decline in output volume. However Naira terms average post privatization turnover figures for all companies expanded by 221.2 percent from N382.43 million at offer time to N1.2 billion post privatization.

As to profitability, the ability to minimize waste in the use of resources (inputs) vis-a-vis outputs would be evidenced in the profit level of a company. All but one of the privatized companies recorded growth in average pre-tax profit. For some, the increase ranged between 800 to almost 2000 percent. The average pre-tax profit for all the companies therefore, short up by over 400 percent after privatization. 52.9 percent of the affected enterprises recorded post privatization growth considering profit margin as a factor.

Return on investment showed a positive growth for most companies as 19 or 55.9 percent of them recorded more earnings from funds invested. Based on investment turnover, 61.8 percent of them experienced increase in ratio of turnover to capital employed.

Relating to leverage; debt to equity ratio of many of the companies dropped. For instant, only four or 11.8 percent of the affected companies recorded a higher post privatization leverage. It will therefore be seen that majority of privatized companies held more equity capital than long term debt. It was noted that the enterprises now rely more on equity capital as a source of finance.

Payment of dividend too is very encouraging, for instant, payment for 26 companies showed a post privatization increase of 363.6 percent, with some of the companies recording average growth of as much as 1500 percent. An examination of the ratio of average dividend payout to after tax profit showed a post privatization upward trend of 64.7 percent for all companies. And in addition to cash dividend, bonus issues were also distributed to the shareholders by the companies.

Performances at the stock market were encouraging. At the time of public offering, the companies had a combined issue and paid up capital of 3.2 billion ordinary shares amounting to N1.6 billion. However, by year end 1995, the figure has grown by 85.4 percent in both volume and value to 5.9 billion ordinary shares worth N3.0 billion. It was also noted that companies in insurance sub-sector increased their paid up capital mostly while 28 of the 34 privatized companies had since issued one or combination of securities.

Moreover, most of them had witnessed at least two folds increase in their market prices; an indication of favourable perception and acceptability of their performances within the economy.

With all these success stories comparatively to what we used to have pre-privatization era, the merits of privatization etc. we need to critically look into the vision of privatization in the 21st century judging by the missions to be achieved.

Vision For Privatization in the 21st Century

Optimum benefits of privatization should be pursued by the government. Since labour force was present in all these organisations, government at privatization should endeavour to carry all stakeholders along in the exercise, that is including the labour there. Only inefficient workers should be done away with. Proper education and enlightenment should be adopted among the stakeholders. This will reduce, if not eliminate the act of litigation against the government privatization proposals. A case in point was the Nigerian Ports Authority (NPA) whose privatization program was stalled by court cases. In this case also, investors were been warned to stay clear of the enterprise. (Ogwemoh, 2003).

The Bureau of Public Enterprises and the management of any public organisation to be privatized should endeavour to study well and correctly any prevailing laws relating to the establishment and operation of that enterprise so as not to be an impediment on the privatization program of that enterprise. A case in point was the Maritime Workers Union of Nigeria (MWUN), the NPA Senior Staff Association claiming that no new concept could be introduced without first amending the existing Port Act which slates the ports for full commercialization.

Nigeria should adopt consistency in terms of activities, operational policy and personnel in her privatization programme. According to Mkpuma (2004), the Bureau of Public Enterprises (BPE) was to draw $28.05 million that is N3.79 billion from the World Bank to share up activities in her privatization programme. The World Bank extended a credit line of $ 114.29 million as privatization support credit to the federal government in 2001 to facilitate the sales of public enterprises. But the BFE could only draw $ 19.17 million since 2001, a development which the World Bank was not happy about. And the reason deduced was the frequent changes in personnel holding relevant government positions. As government officials are redeployed and the new ones had to start all over with diverse thoughts, to study the ways the bank operates.

In the same vain the government should solve the problem in the power sector. In this 21st Century, availability of electricity should not be less than twenty-two hours a day. The power sector reform bill that stayed for over two years at the National Assembly should be implemented without prejudice. Also, the four refineries should be made to work for cheaper accessibility to petroleum products rather than the costlier imported brands of fuel.

We should avoid a long lull in the privatization programmes as it happened when Dr. Julius Bala took over from Mallam Nasir El Rufai as the Director General of BPE whereby for about 1½ years, no public enterprise was privatized. Until when Daily Times of Nigeria Plc and Alumimim Smelter Company of Nigeria (Alscon) were offered for sales, many local and foreign investors had doubts on the seriousness of our government. The essence of the activities is to facilitate the turning around of our nation's economy (Editorial Comment, 2004). Emphasis should be on selling public utilities which if transferred into private hands will become more efficient. A good example is the sales of the newsprint plant at Oku Iboku so as to save the nation of billions of Naira being spent yearly on importation of newsprint into the country.

We also now have to privatize our rail system. It offers members of the public an alternative and even cheaper means of transportation. For over three decades now, we have relegated to the background our rail system as a means of transportation despite all efforts at reviving it.

The activities of the advanced fee fraudsters (419 ners) are stumbling blocks to Nigeria enjoying inflow of Foreign Direct Investment (FDI) which is meant also to assist us financially in our privatization bid. According to Anaro (2004), the National Economic Empowerment Development Strategy (NEEDS) has plans to empower the country with at least US $1.5billion annually since 2002. Less popular countries in Africa, example, Morocco in 2003, had inflow of FDIs of about US $ 2.3 billion for her privatization programme.

Alongside this is the issue of corruption: at high and low places, within and outside government offices scaring away investors. Quoting the United Nations international Conferences on Financing Development sometimes in September, 2004, "Corruption is a serious barrier to effective resources mobilization and allocation. It diverts resources away from activities that are vital for poverty eradication and economic and sustainable development".

In this country Nigeria businessmen and women should invest in their economy seriously, stop the idea of looting our economy and siphoning and repatriating public funds to foreign countries. We should be proud and embraise everything Nigeria. By this, foreign investors will be encouraged to join us in strengthening our economy with us.

The issue of security is of great concern to an average foreign investor in Nigeria. The happenings in Niger Delta area, the religion/ethnic clashes in the northern parts of Nigeria, the illegal police road blocks and the issue of touts (Agberos) at our ports and on Lagos roads pose security risks to foreign investors. The investors are aware of all these through literature and news.

Conclusion

Considering what we have above, in the 21st century, the federal government should look beyond the immediate gains of privatizing performing enterprises and make hay to sell utilities that would in the near future make the economy to thrive and bring succour to the masses of this country. It is also necessary in order to break barriers to inflow of FDI, that government invests in basic economic and social infrastructure, social services and social protection including education, health, nutrition, shelter and social security programmes, which take special care of children and other persons.

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